16 JUN 1981

MEMORANDUM FOR: Deputy Director for Operations

FROM: Harry E. Fitzwater
Deputy Director for Administration

SUBJECT: New York Times Article Entitled, "The Qaddafi Connection"

1. In the 14 June 1981 edition of the New York Times, an article by Seymour M. Hersh reported that a group of former CIA employees had been, among other things, using their former employee status to obtain classified information and material from Agency contractors for illegal sale to foreign governments. In this regard you asked for an outline of how classified material is protected from unauthorized third person or foreign government access. There are several regulatory issuances governing these procedures, all of which stem from various federal statutes and Executive Orders. Specifically these publications are:

a. Standard Security Procedures for Contractors, dated 1 May 1979;

b. Security of COMINT and/or TALENT-KEYHOLE Controlled Information Provided to or Produced by Agency Contractors;

c. [redacted] Industrial Security Manual, dated November 1969; 25X1

d. U.S. Intelligence Community Physical Security Standards for Sensitive Compartmented Information Facilities, dated 23 April 1981;

e. [redacted] dated 15 May 1980. 25X1

2. In addition to the above, every contract incorporates boiler place language regarding security and nonpublicity and specific provisions for adherence to security requirements,

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classification, default for nonperformance on security issues, need-to-know, etc. There is also a Contractor's Secrecy and Security Agreement, signed by corporate officers, which incorporates similar language. Each Request for Proposal requires specific responses from the contractor as to their security plan and compliance with security regulations and protection of Agency classified information. There are various Agency regulations governing Agency employees' responsibilities in this regard. Of particular note is [redacted] regarding relationship with former employees. 25X1

3. These regulations, procedures and standards are promulgated by:

a. Security clearances and security approvals for Agency and contractor employees. This includes background investigations and, where applicable, polygraph examinations.

b. EOD processing (Agency employees), and initial briefings by the Contractor's Security Officer (CSO).

c. Secrecy Agreements which legally bind individuals in all aspects of classified information protection.

d. Reindoctrination, continuing security education programs, reinvestigation and repolygraph programs which cover the issue of unauthorized dissemination of classified information.

e. Upon resignation or retirement, debriefings and termination secrecy agreements.

f. Monitoring of security performance throughout the employee's tenure for both Agency and contractor employees.

g. Security lectures at the Project Officer in the Contractor Cycle Course (POCC) and other training involving Contracting Officers, Project Officers, and Industrial Security Officers.

h. Periodic industrial contractor conferences.

i. Industrial security officers training program.

j. Guidance and advice from security staffs and individual security officers assigned to each contracting element.

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[redacted]

5. Inspections, audits and recommendations cover every aspect of security. Some of the specific key issues covered are:

a. physical security standards;

b. stringent procedures for document control, accountability, inventory, reproduction and destruction;

c. reducing classified holdings by either returning or destroying residual material;

d. stringent access control to classified information in restricted areas;

e. reviewing and rejustifying security approvals on each employee and keeping lists of cleared employees current;

f. strict visitor certification procedures;

g. reporting and adjudicating foreign ownership, control or influence in a corporation;

h. reviewing capabilities briefings, publications and patent procedures;

i. limiting access to only individuals who are Agency security approved.

6. As you can see, the regulations and requirements for protection of classified material in industry are all-encompassing, for both Agency and contractor employees. Much of the strength of the Agency's present Industrial Security Program results from the Boyce and Lee case. After that incident, the program's scope was greatly expanded and augmented with additional personnel in contracting element security staffs. Security education was revitalized and given greater emphasis within the Agency and the contractor facilities. Background investigation and reinvestigation criteria were strengthened. The adjudication process was reviewed and made more stringent. A program of unannounced comprehensive security audits was instituted. [redacted] these audits have been conducted since this program began in the summer of 1977. The Inspector General was tasked with periodic reviews of the industrial contracting process to include industrial security. Much of the stronger and more specific security language in contracts was added after this incident. Of course, none of these regulations, procedures and requirements are immune to circumvention by personnel who would violate U.S. laws and personnel secrecy declarations. For this reason they are continually under review for effectiveness and current applicability. However, the present procedures incorporate reporting procedures designed for the early detection of aberrations or possible violations and they bring these items to the attention of the appropriate Agency officials.

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SIGNED

Harry E. Fitzwater

Attachment:
New York Times Article

SUBJECT: New York Times Article Entitled, "The Qaddafi Connection"

ORIGINATOR: [redacted] 25X1

[redacted] 25X1
Director of Security

Distribution:
Orig & 1 - Adse
2 - DDA
1 - D/SEC
1 - D/SEC
1 - OS Registry
1 - PTAS/PSD/ISB Subject
1 - PTAS/PSD/ISB Chrono

PTAS/PSD/ISB [redacted] 16 June 81) 25X1

ON PAGE 52 NEW YORK TIMES MAGAZINE 14 June 1981

THE QADDAFI CONNECTION

By Seymour M. Hersh

Five years ago, two former operatives of the United States Central Intelligence Agency — Edwin P. Wilson and Frank E. Terpil — made a business deal with Col. Muammar el-Qaddafi, the ruler of Libya. In essence, the former C.I.A. men, who had become partners in an export-import business, agreed to sell Colonel Qaddafi their accumulated years of American intelligence-agency contacts, experience and expertise. Theirs was a product that could not be purchased on the open market. The colonel, who boasts of supporting terrorism in the Middle East, Europe and Africa and who has been attempting to set up his own new federation of Arab and Moslem states, was willing — and able, because of his vast oil wealth — to pay dearly.

As a result, the two Americans, according to Federal investigators, have made millions of dollars aiding Qaddafi in his drive to export terrorism and build his own Middle Eastern power. Under cover of their export-import business, Wilson and Terpil are said to have helped Libya set up a manufacturing plant for the production of assassination weapons; to have themselves helped Qaddafi plan political assassinations; to have recruited dozens of former Green Berets to teach Libyan soldiers and Arab terrorists how to handle volatile explosives — how, for example, to turn ashtrays into weapons of terror; to have illegally shipped arms explosives to Libya with the aid of forged and fraudulent State Department export certificates, and to have involved other former C.I.A. employees in their projects.

Information about the Qaddafi connection has been known by the Government since the fall of 1976. It was then that Kevin P. Mulcahy, at the time a partner of Wilson and Terpil, approached the C.I.A. and the Federal Bureau of Investigation with grave doubts about the legality and ethics of his company's business dealings with Libya. Mulcahy, a former C.I.A. employee who had spent six months inside the Wilson-Terpil operation, would spend hundreds of hours, over the next few years, providing the Government with firsthand knowledge.

Kevin Mulcahy has now decided to tell his story publicly for the first time. He's tired of waiting for this segment of his life to end. He wants to be listed again in the telephone directory, to hold a driver's license in his own name, to vote, to own property, to stop living as if he — and not Wilson and Terpil — had been indicted for wrongdoing. He feels he is forced now, in effect, to give his testimony in the pages of The New York Times. The essentials of his account have been verified where possible through secret documents and in interviews with key members of the State Department, the Justice Department, the F.B.I., the United States Attorney's office in Washington, as well as with Stansfield Turner, the former head of Central Intelligence, and other high C.I.A. officials.

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The Wilson-Terpil case is a story of Americans who meet secretly in bars and board rooms to arrange the illegal sale of electronic-spying equipment and terrorist weapons, and of Americans who train assassins abroad. It is a story of an old-boy network of former C.I.A. operatives and military men, and a story of present and past C.I.A. leaders who seem unable to face fully the implications of the case. It tells of a basic inability of the Government's investigative and law-enforcement agencies, disrupted by internal jealousies and feuding, to perform effectively. It suggests that a moral climate exists inside and on the edges of the intelligence community which results in the subversion of national goals to personal gain.

Ed Wilson was running what amounted to an updated version of the military-industrial complex in which former C.I.A. and military employees have put their Government experience, contacts and knowledge to use for large personal monetary gain, regardless of the damage they will do to their own country. Such men have worked in league with a number of American manufacturers who have specialized in working for the C.I.A. and other intelligence agencies in supplying military goods and highly classified technical equipment. Questions that should normally be asked — Are the sales officially authorized? Are they legal? Do they jeopardize national security? — are not. Senior Government officials, in recent interviews, acknowledge that American expertise is being transferred abroad in unprecedented fashion. The phenomenon, known in the bureaucracy as "technology transfer," is one apparent result of the declining morale inside the intelligence community and the increasing profits available. These officials say that nations such as Chile, South Korea, Brazil, Argentina, Taiwan, South Africa, Iraq and Pakistan have been able to purchase the very latest American equipment and technology in communications, military arms, computer science and nuclear development — with or without authorization from the United States Government.

The matter was intensively reviewed, at high levels, inside the Carter

Seymour M. Hersh, a former New York Times reporter, is now at work on a book about Henry Kissinger to be published by Summit Books.

Administration, with little progress. As yet, the Reagan Administration has not addressed the issue. In early May, the Administration did order the Libyan Government to shut down its offices in Washington, as part of the campaign against international terrorism. But it has not faced the broader problem — the export of American weaponry and expertise to terrorists.

Before the Federal prosecutors brought their indictments in April 1980 in the Wilson-Terpil case, the file was presented to Philip B. Heymann, then Assistant Attorney General for the Criminal Division. Heymann, who is returning this summer to teach at Harvard Law School, recalls: "I was shocked by what I saw in the Wilson matter. The notion that there is no control over an American intelligence official taking his know-how and selling it to the highest bidder seems to be insane. If terrorism is to be taken as a major national problem," Heymann says, "we'll have to start at home and draft statutes that would bar the sale of fancy American equipment and fancy American expertise for terrorist purposes. It won't be an easy matter, because it's hard to put a lid on the dissemination of information. But this question is exactly what Congress ought to be holding hearings on."

Federal authorities, in accepting Kevin Mulcahy's story as accurate, acknowledge that its implications are deeply disturbing: Qaddafi obviously has utilized the materials and expertise of Wilson and Terpil in his support of such terrorist groups as the Palestine Liberation Organization, the Red Brigades of Italy, the Red Army of Japan, the Baader-Meinhof gang in Germany and the Irish Republican Army. He is suspected of having ordered the murder of at least 10 political enemies in Europe and the Middle East; two months ago, the F.B.I. arrested Eugene A. Tafoya of New Mexico, a former Green Beret, and accused him of an attempted assassination of a Libyan student at Colorado State University. The Libyan is one of a growing number outside the country who oppose Qaddafi's rule. When arrested, Tafoya, who traveled to Libya three times last year, had Ed Wilson's business card in his possession with telephone and telex listings in Tripoli, London and Washington for one of Wilson's Swiss-based companies. Tafoya's links to Wilson are still being investigated.

Colonel Qaddafi is relentlessly anti-Israel, supports the most extreme factions in Syria and opposes the moderating influences of Jordan's King Hussein and Egypt's Anwar el-Sadat as part of his campaign of political expansion in North Africa. Qaddafi's ambitions were strengthened early this year when he successfully invaded Chad, seizing an area believed to be rich in uranium ore. The war also meant more profit for Wilson, who has established his own trading company in Tripoli, known as Meprico, to supply Qaddafi's army. Libya, relying on its estimated $25 billion in annual oil revenues, is a major purchaser of Soviet arms, and more than 5,000 Warsaw Pact military advisers are believed to be on duty with Qaddafi's 60,000-man army.

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A former high-speed-communications and computer-technology expert in the C.I.A., Kevin Mulcahy was no innocent when he came forward about the way the export-import business had worked. He had gone into business with Wilson and Terpil at a high guaranteed income. Within three months, Mulcahy realized that his partners were routinely selling restricted military and communications gear. He himself offered to sell such sophisticated equipment as second-generation computer systems and coded communications machinery. Mulcahy did not hesitate in his talks with the authorities to acknowledge his own role in questionable activities, which included the sale of embargoed ammunition to South Africa. In all of these dealings, he says, he believed or wanted to believe that Wilson and Terpil were somehow part of a covert C.I.A. operation.

Today, Mulcahy is an angry and frustrated man. He believes his life is in danger, a belief shared by Federal officials, and he is deeply disturbed by what he regards as a monumental lack of resolve, competence and communication within the Federal Government in handling the case. It took nearly four years to indict Wilson and Terpil in Washington, on charges that include illegal export of explosives, failing to register as a foreign agent, and conspiracy and solicitation to commit murder. Despite fugitive warrants, the Government has been unable to apprehend them at a time when their travels in and about Europe, the Middle East, Africa and the United States have been observed by many people. Last winter, more than six months after his indi ment, Wilson was seen by a busin friend in Blackie's House of Beef Washington restaurant, with a group his former employees; it is not kno how he entered the country. Mulcal meanwhile, has been forced to lea life of furtiveness. "I've had five ye of indecision, contradiction and wait for the day that this chapter of my l ends," he says. "The Governm keeps telling me, 'We're on top of we're on top of it.'" Yet Wilson a Terpil remain at large, and many their operations, which clearly seem be working against the interests their own country and, indeed, wo peace, are believed to be continuing this moment.

Kevin Mulcahy, now 38, grew up v tage Americana in suburban Washi ton: altar boy, Eagle Scout, vars basketball, class vice president. was a son of Donald V. Mulcahy, a year-career senior official of the C.I. four of whose six children were a employed by the agency. Kevin, oldest child, began working full-ti for the C.I.A. in 1963, after serving an airborne radio operator in the Na He became a communications computer expert and worked on hi classified programs that he will talk about today. In 1968, he resig from the agency to take a position i electronics industry. There follow succession of increasingly respons jobs in the computer industry, a seri drinking problem that drove him Alcoholics Anonymous, and a pai divorce.

By the fall of 1974, Mulcahy had c to grips with his alcoholism and, ha left the computer industry, be working in Virginia as a counselor drug- and alcohol-treatment center 1975, he was trying to set up a serie halfway houses and was scrambling Federal grants. Mulcahy rented house by chance from a Barbara W son — Edwin P. Wilson's wife. Mulc became friendly with her and even ally was invited to dinner at the W sons' newly purchased, luxurious 1,5 acre farm in Upperville, Va. Ed Wils now 52, was well known inside C.I.A. as a skilled and trustwort operative. Wilson, who began his port-import business in the early 197 while working as a consultant for a t secret Navy intelligence unit, h played a role in the Bay of Pigs other undercover operations in his C.I.A. career as a contract agent. M cahy was impressed.

Over dinner, Wilson made it clear that he knew pretty much all there was to know about Kevin Mulcahy, about his former employment with the C.I.A. and his current work with teen-agers. A few months later, Wilson made an offer Mulcahy would not refuse: If Mulcahy would join his arms-sales business in Washington and remain for one year, he could then have as a bonus a nine-bedroom farmhouse Wilson also owned and use it as a halfway house for troubled youths. Mulcahy's guaranteed $50,000 annual income would be supplemented by commissions and expenses. "I had no suspicions at all about the job," Mulcahy recalls, and he began working hard. "I was putting in 13 hours a day at first, dealing with 10,000 suppliers and inquiries about canned food, parachutes — any kind of equipment, from machine guns to aircraft. There was no reason for suspicion in those weeks." Most of the business was aboveboard and involved the sale of highly technical equipment. Mulcahy was responsible for arranging export licenses, international letters of credit and shipping, and also for determining which manufacturers' equipment would meet the specifications of the order.

Mulcahy obviously passed muster. In the early spring of 1975, Wilson walked him to another office a few blocks away, in downtown Washington, and introduced him to Frank Terpil, now 41. Terpil had served about seven years as a communications technician for the C.I.A. but was forced to resign in 1971 after a series of embarrassing private escapades, including an attempt to smuggle contraband liquor into India. Unlike Wilson, who mingled easily and effortlessly with senior C.I.A. officials, corporate executives and important members of Congress, the Brooklyn-born Terpil was a street operator who had been arrested twice for illegal trafficking in arms. Mulcahy knew nothing about Terpil except that he had worked overseas for the C.I.A.

The three men agreed to set up a new company, to be known as Inter-Technology Inc., for the specific purpose of selling high-speed communications gear and computers to foreign countries. The equipment was legally purchased from American companies. Each man was to be a one-third partner of Inter-Technology, which, it turns out, was one of scores of Wilson-Terpil companies scattered in corporate records throughout the United States and Europe.

If Mulcahy had any doubts about his new job, he suppressed them by believing — or wanting to believe — that Ed Wilson was still linked to the C.I.A. "Ed would parade his contacts in the C.I.A. with the people he was doing business with to impress them that he was *still* C.I.A.," Mulcahy says. "He would suggest he was still under deep cover." Often on Friday nights, Wilson made it a point to go drinking at bars in suburban Virginia known to be after-hours hangouts for C.I.A. officials on duty at the agency's headquarters in McLean. Mulcahy, the new partner, began going along. "I thought he was agency," Mulcahy says of Wilson. "I had no question in my mind."

A few days after the new partnership was formed, Mulcahy discovered sales orders showing that Wilson and Terpil were in the process of selling machine guns and silencers to an arms dealer in Zambia. He was bothered by the sale of the silencers for he knew they had only one purpose — killing without drawing attention to the killer. He telephoned the F.B.I. and later showed copies of the sales orders to agents in the Bureau of Alcohol, Tobacco and Firearms (B.A.T.F.), one of whose functions it is to monitor illegal arms deals and report on impending sales. He also asked about his new partners. The authorities said that the sale to Zambia was legal and that they had no derogatory information about Wilson and Terpil in their files. "I said to myself, 'Christ, this has got to be an agency operation,'" Mulcahy recalls. "These guys are buying and selling silencers, and the F.B.I. and B.A.T.F. give them the O.K. So I'm feeling pretty good: I'd gone to the Federal authorities, shown them documents and they said Wilson and Terpil were clean."

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Wilson's contacts seemed inexhaustible. Ed Wilson was friendly, as Mulcahy and Federal investigators were later to learn, with many senior legislators, including Senators Strom Thurmond of South Carolina and the late John L. McClellan of Arkansas and Representative Silvio O. Conte of Massachusetts. He could telephone a contact in the Internal Revenue Service and within 15 minutes have intimate financial details on a potential customer. He was able, with a telephone call to Washington's police headquarters, to obtain registration information on a local automobile license plate. But sometime in late May of 1976, Wilson went a step further: He telephoned Theodore G. Shackley, a prominent C.I.A. official who was then serving as the assistant to the deputy director for clandestine operations — one of the most powerful posts in the agency. Shackley was renowned for his toughness and efficiency as a station chief in Laos and in South Vietnam during the height of the Vietnam War, when the C.I.A. was deeply involved in its still controversial Phoenix assassination program. He later served in Chile, when the C.I.A. was assigned the task of interfering with the Government of Salvador Allende Gossens.

Wilson arranged a meeting at Shackley's home a few nights later after work, bringing along Mulcahy and an American, Harry Rastatter, one of Terpil's business associates who had just returned from a business trip to Egypt, Turkey and Iran. Rastatter had obtained some information from Savak, the Iranian internal police, and was willing to pass it along to the C.I.A. Shackley was introduced by Wilson to Mulcahy and recalled knowing his father, who earned the National Intelligence Medal, the agency's highest reward, before retirement. There was talk about military and intelligence needs in Iran, Turkey and Libya. Wilson told Shackley that he and Terpil were planning to travel to Tripoli and meet with Qaddafi. "By now I'm convinced that the whole thing is an agency front," Mulcahy recalls. "I thought Ed was in bed with the C.I.A." Some Federal officials say they are still investigating Shackley's personal and financial involvement with Wilson. Shackley has acknowledged to Federal authorities that the meeting described by Mulcahy as well as other meetings with Wilson did take place, but Shackley insisted that at no time did Wilson receive any authority or sanction from the C.I.A. for his work in Libya. He said his contacts with Wilson were solely for the purpose of obtaining any stray bits of intelligence Wilson might have picked up. Wilson and Shackley had worked together in 1960 on the Bay of Pigs operation. Shackley, in an interview, confirmed Mulcahy's account of the meeting and said that he, like Mulcahy, was unaware then of Wilson's plans for supporting Qaddafi's terrorist program. Shackley said his purpose in talking to Wilson and Rastatter was to collect information from non-C.I.A. sources. "I talked to them solely not to be a captive of the system," he said. "Wilson was a guy who knew about a lot of things. He was a good contact."

After the Shackley meeting, Mulcahy was brought into the Libyan operation. Muammar el-Qaddafi had placed a purchase order with Wilson and Terpil for hundreds of thousands of timers capable of detonating explosives at some specifically delayed time. Wilson and Terpil did not tell Mulcahy, however, the real purpose of the devices; instead he was led to believe that Qaddafi needed them to clear mines from harbors and battlefields by safely blowing them up. The mines, so Mulcahy was

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told, had been left from the 1973 Arab-Israeli war. The timers were to be demonstrated to Qaddafi's military and intelligence aides that June in Libya, and Wilson and Terpil had to find an immediate manufacturer. They decided to exploit a long-time C.I.A. contractor, the American Electronic Laboratories of Colmar, Pa., and Falls Church, Va., which had routinely been providing the agency with some of its most highly classified electronics and communications gear.

American Electronic was a logical starting place. In May 1978, Wilson had visited the company's plant in Falls Church in an effort to persuade its officers to retain his firm to represent its products around the world. Wilson brought Mulcahy and Terpil to the meeting, as well as an active C.I.A. employee, Patry E. Loomis, an agent assigned to the Far East who was operating under cover for an aircraft company. One of Loomis's functions was to serve as a liaison officer between C.I.A. headquarters and its overseas stations; he was responsible for establishing personal relationships with senior military and Government officials in the Far East. Loomis added credibility to Wilson's pitch. "Terpil was there to impress them with his contacts in the Middle East," Mulcahy recalls. "Wilson was there for Europe and Loomis for the Far East. I was there because it was told to them that I was ex-C.I.A. and would remain on-site and accessible while the others traveled."

Loomis, who had been illegally moonlighting for Wilson for some time, was one of dozens of former Government employees who had been recruited by Wilson and Terpil. Government investigators have learned that Wilson's technique, as utilized in his approach to American Electronic, was to seek out intelligence and military officials with close relationships with both vital suppliers and foreign governments. These men would be retained to sell goods, ranging from canned foods to weapons, to those foreign countries. Income for his salesmen, as well as for Wilson, was extremely high, in part because the sales were often contingent on under-the-table kickbacks to Wilson's company and to foreign officials.

No agreement was reached between Wilson and senior officials of American Electronic at their meeting, but Wilson and his associates were able to leave the impression that their work was not only highly profitable but also had been officially sanctioned by the Government. In June, when the 10 prototype timers were needed, another series of meetings was set up in a Virginia bar involving three of Wilson's employees, along with William Weisenburger, then an active-duty C.I.A. official, and [illegible] employees of American Electronic, one of whom was another C.I.A. official, then working under cover. Weisenburger and the American Electronic men agreed to work privately over the weekend to produce 10 prototype timing devices at the inflated cost of $1,500 each (10 times the actual cost). Federal authorities later concluded that these men knew that there had been no official C.I.A. authorization for the job, and that senior officials of American Electronic had not known of the moonlighting. It was a project that in the months ahead struck Mulcahy as wildly ironic. He knew that many of the company's senior officials were Jewish and, he now says, "You can bet they wouldn't do anything for Libya."

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Mulcahy was beginning to get a taste of life as an international salesman, and it was good. In June, he flew to England to set up an exhibition at a security show at Brighton. The rooms were first class. So was the food, and there seemed to be a constant series of parties, and party girls. One of Mulcahy's first customers at the security show was a Syrian company, Abdallah Engineering, which was interested in purchasing high-speed communications equipment — gear so sensitive, Mulcahy thought, that the State Department would never permit its export. "Frank told me, 'Don't worry about it. We don't need licenses. Just get the order,'" Mulcahy recalls. "By now it was obvious that Wilson and Terpil had a wide latitude for the agency."

The equipment included encoding devices and radio monitors capable of tracking, intercepting and interpreting encoded signals. There was a meeting with representatives of the Irish Republican Army, who wanted American-made M-16 rifles. Mulcahy learned that such weapons could be found in plentiful supply; North Vietnam had sold its surplus weapons — seized in huge quantities after its army overran South Vietnam in 1975 — to Samuel Cummings of Interarmco, the European-based arms dealer. It was in England also, Mulcahy says, that Terpil asked him if he wanted to earn $5,000 on his return flight to Washington by detouring to Cairo to deliver a "cold gun," one with no identifying serial number. Mulcahy refused to deliver the weapon, but did learn months later that Qaddafi provided Terpil and Wilson with a $1 million contract to assassinate Umar Abdullah Muhayshi, a Libyan defector who had plotted to overthrow Qaddafi's regime. The assassination assignment had been subcontracted by Wilson to three anti-Castro Cubans in Miami with whom he had once worked in the C.I.A. "Frank was playing both ends against the middle," Mulcahy recalls. "He was setting up an elaborate security system for the guy in Egypt to protect him while at the same time trying to bump him off."

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Mulcahy and Terpil got along well and the two men exchanged many confidences during their trips together. "Frank tends to talk a lot; he likes to name-drop," Mulcahy says. "What charges Frank's batteries is the thrill of the chase, the excitement, being on the periphery of power. He thrives on it." In time, Mulcahy said, he came to realize that there was more truth in Terpil's seemingly wild stories than he had thought.

Wilson is more discreet and far more dangerous, Mulcahy said. "Ed is devious and cunning and he's living a lie — that he is the most important human being alive. He'll use anything to manipulate people or events to get them to come out in his favor. He's absolutely brilliant in the way he sets a deal up, puts people together and parcels out information. Ed compartmentalizes his own operation the same way the agency does. It allows him to play both ends against the middle and come out the winner. If Ed comes back and goes on trial, he's going to use every bit of information he's stored up for years to get the C.I.A. in court and put the agency on trial instead of Ed Wilson." In fact, Wilson's attorney in Washington, Seymour Glanzer, has repeatedly told Federal prosecutors that the whole story of his client's involvement in Libya

has not been aired. Clines, in a telephone interview, refused to comment. But the prosecutors have inferred from conversations with him that his defense will be: Wilson is still at work for the C.I.A. There is no known evidence that this is the case, however.

Mulcahy immediately sensed Wilson's essential toughness, but there was nothing unusual about such men inside the C.I.A. and it was a characteristic that could be admired. Mid-1976 was a period of travail for the C.I.A., which was under attack in the press for its illegal domestic spying activities and under investigation by the Senate Intelligence Committee for its foreign assassination efforts. Mulcahy learned, shortly after joining Wilson and Terpil, that President Ford had placed severe new restrictions on clandestine C.I.A. activities. Wilson and Terpil suddenly became more legitimate in his eyes: "I thought it was logical that the agency would set it up this way and have their people on the street freelancing."

During that summer, Mulcahy edged closer to the line of illegality and, in at least one case, crossed it. He recalls that Wilson and Terpil were selling munitions, communications equipment and highly restricted night-vision devices without preliminary clearance from the Office of Munitions Control in the State Department and the export control division in the Commerce Department. In one case, Wilson and Terpil purchased a United States Army vehicle equipped with night-surveillance equipment for shipment to Libya, in direct violation of all regulations. To avoid any possible problem, the vehicle was first sent to Canada and transshipped from there to Tripoli. The risks of such flagrant activity were high, but so were the rewards. The vehicle cost about $60,000 to purchase in the United States and was sold to the Libyan Government by Wilson and Terpil for $990,000, Federal prosecutors later learned. Similarly, Terpil and Wilson provided Qaddafi with hundreds of closely controlled and sophisticated infrared night-vision devices for M-16 rifles, which were primarily designed for use by snipers in warfare. Not all such sales went to Libya. Mulcahy says he was directly involved in the illegal sale of 2,000 rounds of ammunition to the South African Government, and he used falsified documents to label the ammunition as "plumbing fixtures." This and other sales, he says, were arranged through Sven K. H. Hoffelner, an Austrian arms dealer who also owns a successful group of restaurants in London. Hoffelner had established a close working relationship with Terpil by the time Mulcahy joined the operation.

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In July 1976, after his return from England, Mulcahy learned that only six of the 10 timing devices sent to Libya had worked. The demonstration of the devices was made in Libya by John Henry Harper, who had spent more than 20 years as a bomb and ordnance technician for the C.I.A. and who had joined American Electronic after he retired. Two of the timers had failed, Mulcahy was told, because Harper had miswired them. Libya's reaction to the demonstration was puzzling to Mulcahy: Although nearly half the devices had failed to work, the Libyans were still willing to order 100,000 for immediate delivery. A few weeks later, Terpil returned from a visit to Libya with an increase in the order to 300,000 timers. "I didn't get suspicious," Mulcahy recalls, "until Frank came in with the order for 300,000. I knew damn good and well that there was no way there was a need for 300,000 timers — there weren't 300,000 mines in the harbors and deserts from the Six-Day War as well as World War II."

At this point, Mulcahy understood that Wilson's story about mine-clearing in Libya was false, but he thought it was shielding a C.I.A. operation and not serving as a cover for a terrorist-support program. The cover story was beginning to erode. Whatever concerned Mulcahy was quietly suppressed over the next few weeks, however: "I was impressed by the money and the possibility of making a fortune."

By this time, it was clear that the senior officers of American Electronic could not be persuaded to build 300,000 timers without verifying the order with the C.I.A. There was yet another scramble: This time to find a manufacturer who could begin delivering the timers within 45 days. Another Friday night meeting in a Virginia bar was arranged with Mulcahy and representatives of another long-time C.I.A. supplier, Scientific Communications Inc. of Dallas. Terpil had found the company, whose president, Joe L. Halpain, later agreed to manufacture 500 prototype timers within 30 days. At the Friday night meeting was William Weisenburger, then a branch chief in the C.I.A.'s Technical Services Division — the group responsible for producing the special weapons and safety devices that have been popularized by the James Bond movies. Thomas G. Clines, then a senior official in the C.I.A.'s Office of Training, also was in the bar that night, sitting with Ed Wilson. Mulcahy spent the night table-hopping as the manufacturing plans were worked out. Clines was well known inside the agency for his closeness to Ted Shackley. Like the others, Clines had played a role in the Bay of Pigs. After Shackley's retirement from the C.I.A. in 1979, he and Clines would set up a consulting firm.

Everybody smelled the big money that night in the bar, Mulcahy later learned that the final contract with Qaddafi called for a total payment of $35 million for 500,000 timers whose cost to supply, he knew, would be somewhere around $2.5 million. Even in the inter-

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national-arms business, profits like that are not easy to come by.

Wilson's major concern was time; he had promised the Libyans that he would set up a manufacturing laboratory near Tripoli for the production of assassination weapons in August. Qaddafi, in turn, promised to pay him $1 million in cash immediately upon arrival of the first batch of timers, explosives and other equipment that would be needed. Manufacturing the weapons themselves in Libya would be no problem; men such as John Harper, who was paid more than $2,000 a week by Wilson and Terpil, agreed to go to Libya and begin training Libyans in the art of disguising explosives in ashtrays, flowerpots, lamps and other household goods that could be triggered by delayed timing devices. Scientific Communications came through on its promise to deliver the prototype timers within 30 days. The Texas company had handled legitimate and sensitive contracts for the C.I.A., but this one was different and the firm's president, Joe Halpain, knew it. He personally delivered the timers, hidden in plastic-prescription bottles for export to Libya, to a motel near C.I.A. headquarters, where they were picked up by Wilson and Mulcahy. Far more difficult were the issues of where to purchase the volatile chemical explosives needed for the production of the assassination weapons and how to slip them into Libya. The necessary explosives included TNT and a variety of lethal *plastiques* — among them RDX, formally known as cyclotrimethylene trinitramine — which were designated as Class A explosives by the Department of Transportation and could not be shipped on passenger and cargo aircraft. Wilson and Terpil again reached into the ranks of C.I.A. contractors and found a California firm, J.S. Brower and Associates of Pomona, which agreed to supply the chemicals, all of which were considered defense articles that could not be exported without Federal licensing.

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One problem remained: how to get the timers and explosives into Libya. In early August, 1976, Mulcahy attended a meeting at the offices of Inter-Technology in Washington with a cargo sales manager of Lufthansa German Airlines, which has passenger service from Germany to Tripoli. The sales manager, Walter Doerr, categorically refused to ship the explosives, legally or otherwise, on a passenger craft. And he refused to charter a special cargo plane because of the high risk of explosion. Later that day, Terpil arranged a meeting with Jerome S. Brower, the 61-year-old president of Brower and Associates, who was a highly respected figure in his industry (and later was asked to advise Congress's Office of Technology Assessment on a proposed method of marking and tracing explosives used in international terrorism). Brower was shown a list of all the chemicals that Inter-Technology wanted to purchase for the Libyan operation. Mulcahy recalled that Brower immediately exclaimed: "Hey, you don't need all this stuff for mine clearance."

Wilson explained that the company was setting up a laboratory in Tripoli and doing some demonstrations work. "He didn't say precisely what we were doing," Mulcahy recalls, "but it was obvious. Wilson went further than I'd ever heard in explaining the scope of the entire project. There was an enormous potential for follow-up business, which removed any inhibitions Brower had." Mulcahy marveled at Wilson's ability to handle Brower: "Brower had never done any business with either of these guys before and here he is agreeing to sell and ship explosives to Libya." Brower immediately raised his price and demanded partial payment in advance. Wilson and Terpil agreed to pay nearly $38,000 on account, Mulcahy says, and the California businessman "called his plant, talked to his wife, Peggy, and his plant manager and told them how to pack the chemicals."

RDX, the most lethal and unstable material, was to be placed inside 55-gallon drums in webbing and the drums then were to be filled with a gel substance. The explosives were to be shipped East, to Dulles Airport, marked as "industrial solvent," on the first available passenger flights, Mulcahy recalls. Once at Dulles, they were consolidated into one shipping container, along with the timers and the industrial tools and workbenches needed to set up the explosives laboratory in Libya. Then they were forwarded to Europe for transshipment by Lufthansa passenger planes to Tripoli without knowledge of the airline. All of the men involved in the meeting in Washington understood the implications of what they were doing. Mulcahy says: "The nitro could have blown if the plane hit an air pocket."

Brower was indicted in April 19[illegible] along with Wilson and Terpil, for his role in illegally conspiring to ship explosives with knowledge that they would be used to "kill, injure and intimidate individuals." After pleading guilty and agreeing to cooperate with Federal investigators, he was fined $5,000 last December and sentenced to a five-year prison term, with all but four months suspended.

The meeting with Brower had solved the final stumbling block and Wilson flew to Libya, where he would conclude the arrangements for establishing the weapons laboratory and be on hand to insure the careful handling of the shipment of "industrial solvent" from the United States. He also would receive the promised million-dollar payoff from Qaddafi.

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Kevin Mulcahy, meanwhile, flew to Europe for a meeting in London with Terpil and a group of British arms dealers. There was the inevitable party early one balmy Sunday afternoon thrown by Sven Hoffelner, the trade link to South Africa. Hoffelner had rented a barge and as it was being poled along a canal near Oxford in the bright sun, Mulcahy began taking casual snapshots of the revelry. Terpil saw his camera, Mulcahy recalled, and "went berserk. He got all red in the face; he was really, really nervous. He told me to put the camera away before 'you end up dead.'"

Later that evening, Terpil explained that one of the guests on the barge was Carlos Ramirez, known to police throughout the world as "the Jackal" — the international terrorist believed to be responsible for planning the 1972 Olympics massacre in Munich, the deadly raid on the Fiumicino Airport in Rome and numerous aircraft hijackings. There was no photograph of Ramirez in existence, Terpil told Mulcahy, the "Wanted" posters on the

at airports throughout the world contained only a composite drawing. Terpil also told Mulcahy that Ramirez was living in barracks No. 3 at the former Wheelus United States Air Force base in Libya. Terpil seemed awed by Ramirez, who was accompanied at the party by Sayad Qaddafi, chief of Libyan intelligence, identified by Terpil as Qaddafi's cousin and the second most powerful man in Libya.

Mulcahy was now in far too deep and he knew it.

It was late August and John Harper and other Wilson-Terpil employees were at work in Tripoli setting up the munitions laboratory for terrorist bombs and a training program for their effective use. Wilson and Terpil made it clear to Mulcahy that they did not want him to go to Libya. Mulcahy kept his now grave doubts to himself and continued on his business trip, moving on to Copenhagen and another series of meetings. Terpil returned to Libya, and he and Wilson suddenly dispatched an urgent cable to Copenhagen: Mulcahy was to break off his trip and return to Washington to open negotiations there with the General Dynamics Corporation for the purchase of one of its Redeye ground-to-air missiles. General Dynamics had advertised in trade journals that it had 13 Redeyes for sale to legally acceptable buyers. The missile, which could not be exported to Libya under the law, is shoulder-launched and has a heat-seeking component that enables it to track and destroy aircraft in flight. It had been used extensively and successfully by the Israelis during the 1973 war. "My problem was not to worry about the paperwork," Mulcahy says. "Terpil and Wilson had a pilot in Pennsylvania who would fly anywhere. Once he got over the water" — and away from American legal jurisdiction — "he would change the paper." If the Redeye had been purchased, the pilot would simply change the intended recipient listed on the export license, from an approved ally, such as those in NATO, for example, to Libya.

Altering the State Department's export license, known officially as the end-user certificate, was considered so much a normal part of the arms business by Wilson and Terpil that Mulcahy had been authorized to quote prices 8 percent to 12 percent higher if the sale also required supply of the certificate.

Mulcahy was unnerved by his sudden assignment and discussed it with an associate in Copenhagen — a foreign military attaché stationed in Denmark who had a reputation for legitimate operations. "My friend told me that the only reason Libya would want one Redeye was for use in a terrorist attack," Mulcahy says. "We speculated that Qaddafi probably wanted to be the first to shoot down a 747. To hit a fully loaded passenger plane in flight would be bigger than the destruction of planes at Dawson Air Field in Jordan," where P.L.O. terrorists in 1970 blew up three international airliners and held scores of passengers hostage.

Mulcahy had a leisurely dinner and began walking the streets of Copenhagen. He couldn't sleep. He recalls a trip he and Terpil had taken to a firm called Defense Apparel in Hartford, Conn., where Terpil discussed the possible purchase of up to 100,000 suits that would protect humans exposed to radioactivity. Could the Redeye carry a nuclear warhead? He knew now he would never place the Redeye order.

"I watched the sunrise come in Copenhagen," Mulcahy recalls, "and knew what I had to do — get back to Washington fast. I had to find out what paperwork existed" in the Inter-Technology offices he shared with Wilson and Terpil. "I felt that Frank and Ed were giving Qaddafi any goddamn thing he asked for."

NEXT WEEK

Kevin Mulcahy goes underground to save his life. The Government drags its feet in the arms-export investigation, while some former American C.I.A. and military men continue exporting the hardware of terrorism — timers and explosives, for example — and train Libyans for assassination.

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THE MAN WITH THE CONTACTS

Edwin P. Wilson is invariably depicted by former associates as a charming, charismatic, effective, rough-and-ready, 6-foot-4 swashbuckler who excelled in his military and intelligence career. But the real reasons for his success as an international weapons dealer are the contacts he has built up during more than 20 years of work with United States Government intelligence services.

Wilson went to work for the C.I.A.'s Office of Security in 1951 and, after serving in the Marines, became a full-time C.I.A. contract employee in 1955. In the late 60's, he helped organize a Washington firm called Consultants International Inc. for the C.I.A. and the Navy. The firm's ostensible purpose was to conduct export-import operations, but that function was a cover for classified intelligence operations.

Over the next few years, his intelligence activities were combined and mingled with his private operations. He hired a number of associates, many of them with military or intelligence backgrounds, and, according to Federal officials, was routinely receiving huge kickbacks from American manufacturers and foreign governments on his procurement contracts.

The men working for him were convinced that he was still active in C.I.A. intelligence operations. "I thought he was reporting directly to the President," one former associate recalls. "Ed still must be sanctioned by the U.S. Government. The people I met were impressive. All of a sudden I'm on a first-name basis with big names in Congress and the Senate. It was always like the Government was supporting us." Robert Keith Gray, an influential public-relations man known for his close ties to the Eisenhower, Nixon and Reagan Administrations, was among those listed as a member of the board of Consultants International for five years, beginning in 1970. However, Gray, who served as co-chairman of Reagan's Inaugural Committee, expressed surprise in an interview upon being told of his official listing. "I never knew I was on the board," Gray said. "I never was invited to a board meeting." He acknowledged that he has had a social and business relationship with Wilson, whom he described as "charming and very much a red-blooded American."

In 1971, Wilson dropped his C.I.A. connection and was a part of Task Force 157, a secret Navy intelligence unit that employed 50 to 75 agents to monitor and collect information on Soviet shipping. It reported not only on routine cargo items but also watched for the covert shipment of military goods and nuclear weapons. The unit also was charged with the responsibility of picking up intelligence operatives from Taiwan and secretly ferrying them inside mainland China, where they would implant sensitive seismic monitors and radio equipment. Those operations were stopped after President Richard M. Nixon's visit to Peking in 1972, and C.I.A. officials were astonished to learn later that some of the sensitive equipment, designed solely for use inside China, was appearing for sale in the international arms market.

Wilson's first C.I.A. assignment, in the 50's, was to infiltrate the Seafarers International Union, in which he was eventually appointed to a number of official positions. He also was involved in Congressional lobbying on behalf of the union and apparently began then forming his close relationship with a number of influential members of Congress. Wilson became a C.I.A. specialist on maritime issues and was involved in the procurement of equipment for clandestine Navy operations. During the Bay of Pigs, he was assigned as a paymaster and handled procurement as well. He later served in Southeast Asia and Latin America.

A full accounting of Wilson's connections and business activities may never be known. He has boasted of having a controlling interest in more than 100 corporations in the United States and Europe. — S.M.H.

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ROUTING AND RECORD SHEET

SUBJECT: (Optional)
Headquarters Security Branch,
Security Services Section Interviews

FROM:
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EXTENSION | NO.

DATE
8 June 1981

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